

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name VANDALIA	County CASS
Audit Date FEB 28, 2003	Opinion Date JUNE 16, 2004	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ yes ☐ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) RICHARD L. BALDERMANN, CPA			
Street Address 1197 WILD CHERRY DRIVE	City WILLIAMSTON	State MI	ZIP 48895
Accountant Signature <i>Richard Baldermann</i>			

**Village of Vandalia, Cass County
February 28, 2003
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Richard L. Baldermann

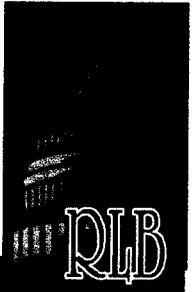
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June 16, 2004

Village of Vandalia
Cass County
P.O. Box 57
Vandalia, Michigan 49095

Independent Auditor's Report

Dear Council Members:

I was engaged to audit the accompanying statement of assets, liabilities and fund equity arising from cash transactions of the Village of Vandalia as of February 28, 2003 and the related statement of receipts, disbursements, and changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Village's management.

The Village did not maintain an adequate general ledger for all funds and did not have sufficient evidential matter relating to disbursements and receipts. The general fixed assets have not been updated since 1993.

Since the Village did not maintain an adequate general ledger or sufficient evidential matter to support disbursements and receipts, and I was not able to apply other auditing procedures to satisfy myself as to some general ledger balances, the scope of my work was not sufficient to enable me to express, and I do not express, an opinion on these financial statements.

Richard L. Baldermann

Richard L. Baldermann, CPA, CGFM

VILLAGE OF VANDALIA, CASS COUNTY
Combined Statement of Assets and Liabilities Arising from Cash Transactions
All Fund Types
February 28, 2003

Exhibit 1

	<u>Governmental Fund Type</u>		<u>Proprietary Fund Type</u>	<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Internal Service</u>	
<u>Assets</u>				
Cash	\$ 40,280	\$ 115,192	(28,144)	\$ 127,328
Equipment (Net of Depreciation)			4,346	4,346
Due From Others	15,698			15,698
Due From Other Funds	35,293	4,000	24,275	63,568
Due From State of Michigan				
 Total Assets	 \$ 91,270	 \$ 119,192	 476	 \$ 210,939
<u>Liabilities and Fund Equity</u>				
<u>Liabilities</u>				
Accounts Payable		44		44
Due to Other Funds	8,855	\$ 54,123	\$ 591	\$ 63,568
Due to State	41			\$ 41
Due to Federal	95			\$ 95
Deferred Revenue	15,698			\$ 15,698
<u>Fund Equity</u>				
Fund Balance	66,581	\$ 65,025		131,606
Retained Earnings (Deficit)			(115)	(115)
 TOTALS	 91,270	 \$ 119,192	 \$ 476	 \$ 210,938

The Notes to Financial Statements are an integral part of this statement

**VILLAGE OF VANDALIA, CASS COUNTY
COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCE
ALL GOVERNMENTAL FUND TYPES
For the Year Ended February 28, 2003**

EXHIBIT 2

	GOVERNMENTAL FUND TYPES		Total (Memorandum Only)
	General	Special Revenue	
Revenues			
Taxes	\$ 31,073		\$ 31,073
State Grants	72,786	\$ 111,568	184,354
Federal Grants		\$ 22,480	
Licenses and Permits	1,886		
Interest and Rents	471	\$ 493	964
Other	18,163	2,340	20,503
Total Revenues	124,379	136,881	236,895
Expenditures			
General Government			-
Village Council	11,050		11,050
President	2,347		2,347
Clerk	6,805		6,805
Treasurer	3,819		3,819
Building and Grounds	36,413		36,413
Cemetery			-
Public Safety			
Building Inspection	510		510
Public Works			
Street Lighting	4,224		4,224
Streets		32,538	32,538
Health and Welfare			
Ambulance	5,695		5,695
Community and Economic Development			
Community Promotion		192	192
Recreation and Culture			
Parks	152		152
Other Functions			
Insurance and Bonds	12,323		12,323
Capital Outlay			
Village Hall Improvements	1,008	30,135	38,051
Office Equipment and Furniture	6,908		
Total Expenditures	91,254	62,865	154,119
Excess of Revenues Over (Under) Expenditures	33,125	74,016	107,141
Other Financing Sources (Uses)			
Operating Transfers In		29,612	29,612
Operating Transfers (Out)	(7,655)	(21,957)	(29,612)
Total Other Financing Sources (Uses)	(7,655)	7,655	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	25,470	81,671	107,141
Fund Balance—March 1, 2002	41,112	(16,645)	24,467
Fund Balance—February 28, 2003	\$ 66,581	\$ 65,026	\$ 131,607

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF VANDALIA, CASS COUNTY
STATEMENT OF CASH RECEIPTS, EXPENSES AND
CHANGES IN RETAINED EARNINGS--INTERNAL SERVICE
FUND--MOTOR EQUIPMENT FUND
For the Year Ended February 28, 2003

EXHIBIT 3

Operating Revenues	
Equipment Rentals	<u>24,275</u>
Total Operating Revenues	<u>\$ 24,275</u>
Operating Expenses	
Operating Supplies	
Gasoline and Oil	915
Repairs and Maintenance	996
Depreciation	<u>5,215</u>
Total Operating Expenses	<u>7,125</u>
Operating Income (Loss)	<u>17,149</u>
Interest on Installment Purchase Agreements	<u>(158)</u>
Total Nonoperating Revenues (Expenses)	<u>(158)</u>
Net Income (Loss)	16,991
Beginning Retained Earnings	<u>(17,106)</u>
Ending Retained Earnings	<u><u>\$ (115)</u></u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF VANDALIA, CASS COUNTY
STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUND—MOTOR EQUIPMENT FUND
For the Year Ended February 28, 2003

EXHIBIT 4

	<u>INTERNAL SERVICE FUNDS</u>
	<u>Motor Equipment</u>
Cash Flows From Operating Activities	
Payments to Vendors	\$ (1,910)
Net Cash Provided by Operating Activities	<u>(1,910)</u>
Cash Flows From Capital and Related Financing Activities	
Principal Payments	(5,399)
Interest Payments	<u>(158)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>(5,557)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(7,467)
Cash and Cash Equivalents at Beginning of Year	<u>(20,677)</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ (28,144)</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ 16,991
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation Expense	5,215
Decrease (Increase) in Due From Other Funds	(24,275)
Increase ((Decrease) in Due to Other Funds	591
Other	1,478
	<u><u>(0)</u></u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF VANDALIA
NOTES TO THE FINANCIAL STATEMENTS
February 28, 2003

NOTE A-DESCRIPTION OF OPERATIONS AND FUND TYPES

The Village of Vandalia is located in Cass County and covers an area of 1 square mile. The Village provides services to its 429 residents in many areas including fire protection, community enrichment and development, and human services. The Village is a general law village governed by a 6-member council elected by the citizens of the Village of Vandalia. The Village Council consists of the president and six council members.

Reporting Entity

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," these financial statements present the funds and account groups of the Village. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading, if data were not included. Based on this criteria, there are no component units that should be included in the financial statements of the Village.

BASIS OF PRESENTATION

The accounts of the Village are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

The financial activities of the Village are recorded in separate funds and account groups, categorized as follows:

GOVERNMENTAL FUNDS

General Fund

This fund is used to account for all financial resources except those provided for in another fund. Revenues are primarily derived from property taxes, State and Federal aid, and charges for services to provide for the administration and operation of general village departments, boards and commissions. The fund includes the general operating expenditures of the Village.

Special Revenue Funds

These funds are used to account for specific revenue (other than expendable trusts or major capital projects) derived from State and Federal grants, General Fund appropriations and charges for services which are to be expended for specific purposes as dictated by legal, regulatory or administrative requirements.

PROPRIETARY FUNDS

Internal Service Fund

This fund accounts for the financing of goods and services provided by one department or agency to other departments or agencies of the village, or to other governmental units on a cost reimbursement basis.

VILLAGE OF VANDALIA
NOTES TO THE FINANCIAL STATEMENTS
February 28, 2003

NOTE A—DESCRIPTION OF OPERATIONS AND FUND TYPES (Continued)

ACCOUNT GROUP

General Fixed Assets Account Group

This account group is used to account for the Village's fixed assets other than those accounted for in proprietary or trust funds. The Village has not recorded its general fixed assets.

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus/Basis of Accounting

The accounting policies of the Village of Vandalia do not conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant policies.

The Village's policy is to prepare its financial statements on the basis of cash receipts and disbursements; consequently, certain revenue and the related assets are recognized when received rather than when earned, and certain expenditures are recognized when paid rather than when the obligation is incurred.

Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles, but rather to reflect the cash transactions of the Village.

Property Taxes

The Village property tax is levied and collectible on July 1 on the taxable valuation of property located in the Village as of the preceding December 31st. Taxes are returned delinquent to the County Treasurer on September 15.

It is the Village's policy to recognize revenues in the current year when they are made available for the financing of Village operations. Payment from the County, which purchases the delinquent taxes, is recorded as revenue when received in cash.

The 2002 taxable value of the Village of Vandalia amounted to \$2,644,649, on which ad valorem taxes of 15 mills were levied for Village operating purposes. The 2002 current tax levied included \$39,384 for village operations. The delinquent real and personal taxes totaling \$12,368 will be recorded as revenue when received in fiscal year ended February 28, 2003.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Total Column on Combined Statements—Overview

The total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation because interfund eliminations have not been made in the aggregation of this data.

VILLAGE OF VANDALIA
NOTES TO THE FINANCIAL STATEMENTS
February 28, 2003

NOTE C-MATERIAL VIOLATIONS OF LEGAL AND CONTRACTUAL PROVISIONS

Budget Violations

Public Act 621 of 1978, as amended, requires the adoption of a balanced budget for general and special revenue funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget. Budgets have not been adopted by the Village Council for any of the Village funds and therefore the budget to actual statement has not been included in this report.

NOTE D-CASH

Deposits are carried at cost. Deposits of the village are made in banks in the name of the Village of Vandalia Treasurer. Michigan Compiled Laws, Section 124.91, authorizes the village treasurer to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities, and direct obligations of the United States, or any agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the three highest classifications, which matures not more than 270 days after the date of purchase, and which involves no more than 50 percent of any one fund. The Village's deposits are in accordance with statutory authority.

Governmental Accounting Standards Board (GASB) Statement No. 3, risk disclosures for the Village's cash deposits, are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	<u>\$127,328</u>	<u>\$128,431</u>
Total Deposits	<u>\$127,328</u>	<u>\$128,431</u>

NOTE E-INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables between the government funds are as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Fund</u>	<u>Interfund Payables</u>
General Fund	\$ 35,293	Major Street Fund	\$ 12,035
		Local Street Fund	22,668
		Motor Equipment Fund	590
	<u>\$ 35,293</u>		<u>\$ 35,293</u>
CDBG Fund	\$ 4,000	General Fund	\$ 4,000
Motor Equipment Fund	\$ 24,275	General Fund	4,855
		Major Street Fund	9,749
		Local Street Fund	9,671
	<u>\$ 24,275</u>		<u>\$ 24,275</u>
Total	<u>\$ 63,568</u>	Total	<u>\$ 63,568</u>

VILLAGE OF VANDALIA
NOTES TO THE FINANCIAL STATEMENTS
February 28, 2003

NOTE F--FIXED ASSETS

A summary of proprietary fund type (Motor Equipment Fund) fixed assets at February 28, 2003 follows:

Equipment	\$ 55,111
Less: Accumulated Depreciation	<u>50,765</u>
Net Fixed Assets	<u>\$ 4,346</u>

NOTE G--LONG-TERM DEBT--INTERNAL SERVICE FUND

The long-term obligations of the village, and the changes therein, may be summarized as follows:

	Balance 03/01/2002	Additions (Reductions)	Balance 02/28/2003
<u>Installment Purchase Agreement</u>			
1999 Ford Truck	\$5,557	\$5,557	\$0

NOTE H--RISK MANAGEMENT

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The Village is insured with the Michigan Municipal Liability and Property Pool. Workmen's compensation coverage is acquired from the Accident Fund of Michigan.

The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to, general liability coverage, auto liability coverage, property insurance coverage, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Village pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the information of the Pool provides that the Pool will be self-sustaining through member payments determined necessary by the Pool Board.

During fiscal year end February 28, 2003 and the previous two years, there were no settlements which exceeded the respective insurance coverage. In addition, there has been no reduction in insurance coverage from the prior year.

NOTE I--CONTINGENT LIABILITIES

The Village, in connection with the normal conduct of its affairs, is involved in various claims, judgments, and litigation. The Village's attorney and insurance carrier estimate that the potential claims against the Village, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the Village.

VILLAGE OF VANDALIA, CASS COUNTY
Combining Statement of Assets and Liabilities Arising from Cash Transactions
All Special Revenue Funds
February 28, 2003

Exhibit 5

	Major Street Fund	Local Street Fund	USDA Fund	CDBG Fund	Total
<u>Assets</u>					
Cash	\$ 55,996	\$ 57,900	\$ -	\$ 1,297	\$ 115,192
Taxes Receivable					
Due From Other Funds				4,000	4,000
Due From State of Michigan					-
Total Assets	<u>\$ 55,996</u>	<u>\$ 57,900</u>	<u>\$ -</u>	<u>\$ 5,297</u>	<u>\$ 119,192</u>
<u>Liabilities and Fund Equity</u>					
<u>Liabilities</u>					
Accounts Payable	\$ 22	\$ 22			\$ 44
Due to Other Funds	21,784	32,339			54,123
Deferred Revenue					-
<u>Fund Equity</u>					
Fund Balance	34,190	25,539	-	5,297	65,025
TOTALS	<u>\$ 55,996</u>	<u>\$ 57,900</u>	<u>\$ -</u>	<u>\$ 5,297</u>	<u>\$ 119,192</u>

VILLAGE OF VANDALIA, CASS COUNTY
COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCE--SPECIAL REVENUE FUNDS
For the Year Ended February 28, 2003

EXHIBIT 6

	<u>Major Street</u>	<u>Local Street</u>	<u>USDA Fund</u>	<u>CDBG Fund</u>	<u>Total</u>
Revenues					
State Grants	\$ 77,620	\$ 33,948			\$ 111,568
Federal Grants			\$ 22,480		\$ 22,480
Interest and Rentals	278	212		\$ 3	493
Other	<u>1,918</u>			<u>423</u>	<u>2,340</u>
Total Revenues	<u>79,816</u>	<u>34,160</u>	<u>22,480</u>	<u>425</u>	<u>136,881</u>
Expenditures					
Current					
Public Works	16,923	15,614			32,538
Community and Economic Development				192	192
Capital Outlay			<u>30,135</u>		<u>30,135</u>
Total Expenditures	<u>16,923</u>	<u>15,614</u>	<u>30,135</u>	<u>192</u>	<u>62,865</u>
Excess of Revenue Over (Under) Expenditures	<u>62,893</u>	<u>18,546</u>	<u>(7,655)</u>	<u>233</u>	<u>74,016</u>
Other Financing Sources (Uses)					
Operating Transfers In		21,957	7,655		29,612
Operating Transfers (Out)	<u>(21,957)</u>				<u>(21,957)</u>
Total Other Financing Sources (Uses)	<u>(21,957)</u>	<u>21,957</u>	<u>7,655</u>	<u>-</u>	<u>7,655</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	40,936	40,502	-	233	81,671
Fund Balance--March 1, 2002	<u>(6,746)</u>	<u>(14,963)</u>	<u>-</u>	<u>5,064</u>	<u>(16,645)</u>
Fund Balance--February 28, 2003	<u>34,190</u>	<u>\$ 25,540</u>	<u>\$ -</u>	<u>\$ 5,297</u>	<u>\$ 65,026</u>

Richard L. Baldermann

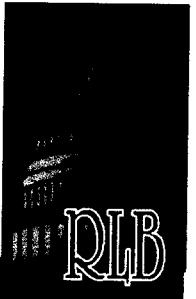
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June 16, 2004

Village of Vandalia
Cass County
P.O. Box 57
Vandalia, Michigan 49095

Dear Council Members:

I was engaged to audit the statement of assets, liabilities and fund equity arising from cash transactions of the Village of Vandalia and the related statement of receipts, disbursements, and changes in retained earnings and cash flows for the year ended February 28, 2003, and have issued my report thereon dated June 16, 2004.

In planning and performing my audit of the statement of assets, liabilities and fund equity arising from cash transactions of the Village of Vandalia and the related statement of receipts, disbursements, and changes in retained earnings and cash flows for the year ended February 28, 2003, I considered the Village's internal control structure to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

The management of the Village of Vandalia is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

I noted certain matters involving the internal control structure and its operation that I consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in my judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with the assertions of management in the statement of assets, liabilities and fund equity arising from cash transactions and the related statement of receipts, disbursements, and changes in retained earnings and cash flows. These conditions are more fully explained in the attached report of comments and recommendations.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that error or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, I noted the following matters involving the internal control structure and its operation that I consider to be material weaknesses as defined above. These conditions are more fully explained in the attached report of comments and recommendations.

- 1) An adequate General Ledger was not maintained
- 2) There was not sufficient evidential matter relating to certain receipts

This report is intended for the information of management and other regulatory agencies. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Richard L. Baldermann

Richard L. Baldermann, CPA

Village of Vandalia
Comments And Recommendations
February 28, 2003

MATERIAL INTERNAL CONTROL STRUCTURE WEAKNESSES

The following is a detailed description and recommendation of the reportable conditions that were considered to be material weaknesses involving the internal control structure.

Official Receipts

Receipts were not issued for the first three months of the fiscal year (March, April and part of May) and are not individually posted to the general ledger. At month end bank deposits were entered and classified as the receipts for the month. Other receipting errors noted are as follows:

- ☐ No receipts were written for tax collection sundry persons after balancing the tax collection records and preparing the bank deposit;
- ☐ Checks written to transfer money from Major Street Fund to Local Street Fund were not always receipted; and
- ☐ Several receipts were written out of order.

I recommend that receipts be written for all cash and checks received and entered into the general ledger on an individual basis.

Incorrect Classifications

There were an excessive number of misclassifications of expenditures as follows:

1. Charges for Services **REVENUE** account was used for numerous checks issued;
2. Certain checks were charged to fund balance/retained earnings accounts;
3. Payroll taxes withheld and employers share of SS & Medicare are misclassified; and
4. Capital expenditures are not reflected properly.

The above errors result in inaccurate reports being submitted to the Council and management decisions are affected by these errors. More care must be exercised when classifying expenditures. Further, payroll taxes withheld and employers share of SS & Medicare posted to the correct accounts will provide a means of verification when paying the Federal and State governments for these taxes.

Inadequate Payroll Records

I found the following situations when attempting to review the payroll records: 1) the village has no formal payroll register; 2) There is no procedure in place to account for all payroll taxes being withheld and/or those the village is responsible for paying. The taxes withheld from each employee did not tie it into the amounts being paid to the IRS or the State of Michigan

Failure to keep accurate payroll records can result in under or over payment of payroll taxes. This can result in penalties and interest being incurred for under payment of taxes or loss of interest revenue for over payment of taxes.

I recommend a procedure be developed for proper maintenance of payroll records. In calendar year 2004, the Village began using a computerized payroll program that will eliminate this deficiency.

Village of Vandalia
Comments And Recommendations
February 28, 2003

OTHER REPORTABLE CONDITIONS

Although the following are not considered material weaknesses in the internal control structure, my audit disclosed certain other reportable conditions that I wish to point out for consideration by the management of the Village of Vandalia.

General Fixed Assets Records

The Village of Vandalia's general fixed assets recorded in the financial statements have not been updated as required by generally accepted accounting principles.

Generally accepted accounting standards require that a complete and up-to-date listing of the village's assets be maintained and included in the financial records of the village.

I recommend that the village take appropriate action to assure that detailed records of the village's general fixed assets are prepared annually, kept on file, and the information is recorded in the general fixed assets account group in the general ledger.

CDBG Program Fund—Notes Receivable

The village has a note receivable for home repairs made through the CDBG program to a village resident. Collections on the note are made by Old Kent Bank, which retains a payee fee and remits the balance to the village along with a monthly statement for the client. This note is not recorded on the accounts of the village.

Generally accepted accounting principles require that all receivables be recorded on the balance sheet of the local unit with a subsidiary account listing the individuals who owe the village money. The subsidiary account total must equal the amount on the balance sheet.

I recommend that the village clerk establish a notes receivable control account in the CDBG Program Fund in the general ledger and record the total of unpaid principal balance as of March 1, 2003, with an offsetting credit to a deferred revenue account.

Each month a journal entry should be prepared from the cash receipts journal to reduce the note receivable and deferred revenue account balances by the total amount of principal paid by the client, and the note receivable control account should be balanced to the total of unpaid principal per individual client account.

NONCOMPLIANCE WITH STATE STATUTES

My examination revealed the following instances of noncompliance with State Statutes.

Budgets

The village did not adopt a budget for the fiscal year ending February 28, 2003.

I recommend that the village council annually adopt a General Appropriations Act (Budget) for the General Fund and all special revenue funds as required by Act 2, PA 1968, as amended.

The Village must publish notice of a public hearing and hold a public hearing prior to adopting the general appropriations act.

The general appropriations act must be amended whenever it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined.

A budget and the appropriate public hearing were held for a budget for FYE February 29, 2004.